# FINANCIAL **SERVICES** COMMISSION

Annual Report 2002/03



## **Vision**

To be a strong, credible, impartial and effective regulator.

# Mission

To protect users of financial services in the areas of insurance, securities and pensions by fostering the integrity, stability and health of the financial sector through the efforts of competent and committed employees.

# FINANCIAL SERVICES COMMISSION

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# BOARD OF COMMISSIONERS



Dr. the Honourable Owen Jefferson Chairman



Gladstone Lewars
Secretary\*



Celia Brown-Blake



**Doreen Frankson** 



Marjorie Henriques



Gayon Hosin



**Hugh Martin** 



**Howard Mollison** 



Clement Radcliffe



Brian Wynter
Executive Director

\*resianea

# EXECUTIVE MANAGEMENT



### SITTING (left to right)

Sheila Martin, Director – Corporate Services, Brian Wynter, Executive Director Stephanie Gordon, General Counsel

### STANDING (left to right)

Catherine Allen, Chief Actuary, Leon Anderson, Senior Director – Insurance E. George Roper, Senior Director – Examinations & Investigations, Angela Beckford, Senior Director - Pensions Glenford McLeish, Senior Director – Securities

# MESSAGE FROM CHAIRMAN

am pleased to present the annual report for the Financial Services Commission (the Commission) for the year ended March 31, 2003.

The year under review was an eventful one for the Commission as we continued to chart the path towards the achievement of our vision "to be a strong, credible, impartial and effective regulator." The way in which we regulate the securities and insurance sectors must reflect the new realities of the financial services industry where investors now have more choice both in terms of the number of functioning institutions and the growing variety of investment vehicles available to them.

The Commission must respond to the rapid changes and innovations taking place in the Jamaican capital market with equally innovative regulatory solutions. As new financial instruments are created, the Commission must respond quickly and effectively to allow these products to be brought to the market in a timely manner. By fostering this level of responsiveness the Commission can help in the development of the Jamaican capital market.

The Commission was officially launched on May 26, 2002 by the Minister of Finance and Planning, Dr. the Hon. Omar Davies. Licensees, registrants and other members of the financial sector participated in this memorable occasion together with our Commissioners, management and staff. The Minister in delivering the main address reminded the Commission of its role and responsibilities particularly in the area of public education.

We recognize that the responsibility to promote public understanding of the operations of the financial sector in general and of licensees and registrants in particular is a major task and one which we must take very seriously. In this regard in November 2002 the Commission held its first seminar which was attended by over three hundred professionals working in the financial sector. The seminar was aimed at familiarizing members of the

life and general insurance and securities industries and other interested parties with the functions of the Commission and its approach to regulation and supervision. By the end of the review period plans were well advanced for the holding of another seminar early in the next financial year which would be geared towards participants in the insurance industry.

During the year the Commission continued with the development of its supervisory framework. New assessment models were developed and implemented. Under the new framework the Commission assesses an institution's safety and soundness by focusing on the level of risks associated with certain key variables of the operation, e.g. capital, assets, earnings, liquidity and management.

In addition to enhancing its supervisory functions the Commission has put more emphasis on the capital and reserves of regulated institutions to ensure that there is adequate cushioning against loss in today's more volatile financial environment. The Commission has begun an initiative designed to strengthen the capital adequacy of securities dealers.

While the Commission has been working hard to strengthen its supervisory and regulatory functions in order to respond to its demanding mandate, it has also been focusing on improving service to licensees and registrants. For example we have developed a new fee structure based on the key principle of charging the enterprises fees based on regulatory effort. We expect to introduce the new fee structure in the next financial year (2003/04). Over time we believe this will lead to a more equitable allocation of costs and make it possible for the Commission to allocate its own resources more effectively. The Commission is also examining a number of measures to streamline the authorization process to ensure that applications for licenses and registrations are approved in the shortest time possible.

The competition for talent in the financial sector is

fierce and the Commission must develop and implement strategies to become more competitive in the labour market if it is to attract and retain staff with the requisite skills to carry out its mandate. Training and development is an important part of the Commission's activities and each year will account for a significant share of the budget. Funding for training in regulation and supervision is also available under two technical assistance programmes (TAs) funded by the Government of Jamaica, the Caribbean Development Bank and the Inter-American Development Bank. The TAs also covers other aspects of the Commission's operation including computerization, operating policies procedures and corporate governance. Implementation of some of these TAs have commenced and others are expected to start during the next year.

I am very proud of the accomplishments to date of the staff who have risen to the challenges facing them in a professional manner and have exhibited a strong commitment to their task as regulators and supervisors. It is a pleasure to work with them and I thank them for their many achievements over the past year.

I also take this opportunity to thank my fellow Commissioners for their continued commitment and dedication in carrying out their responsibilities. It was with sadness that we said goodbye to Mr. Gladstone Lewars who left us at the end of January 2003. On behalf of the Commissioners I would like to thank Mr. Lewars for all his hard work both at the former Securities Commission and at the Commission. He served during a time that has been testing for both the financial sector and the Commission. His enthusiasm, experience and invaluable counsel will be missed. With his departure came the appointment of Mr. Howard Mollison on February 1, 2003. We welcome Mr. Mollison on board and look forward to working with him.

Dr Owen Jefferson Chairman

# EXECUTIVE DIRECTOR'S REPORT

# Highlights of Activities 2002/03

### **Regulatory Activities**

### (a) New Regulations

During the year amendments were made to the Securities (Licensing and Registration) Regulations and the Securities (Conduct of Business) Regulations. The amended regulation which came into effect on September 18, 2002 incorporate a new fee structure for licensees in the securities industry (see Financial Review). Work on the new fee structure started in the 2001/2002 financial year when the Commission had initial consultations with members of the Jamaica Securities Dealers Association and the Jamaica Bankers Association.

The amended Regulations also set out the licensing and continuing operating requirements for a central securities depository.

### (b) Guidelines

During the year the Commission issued guidelines to the securities industry with respect to the registration of issuers of securities and the separation of banking and securities operations.

### • Registration of Issuers

These guidelines set out the requirements for registration, with the Commission, for issuers of securities. The guidelines cover the following areas:

- (i) Filing and Disclosure requirements
- (ii) Restrictions during the offering process
- (iii) Ongoing (reporting) obligations
- (iv) Future offerings
- (v) Private Placements

The guidelines require the filing of a Registration Statement to provide minimum information on the issue and the issuer. The registration statement must be received by the Commission a minimum of thirty (30) days prior to the intended commencement date of an issue or resale to the public.

### Separation of Banking and Securities Operations

The Commission issued guidelines to dealers governing the information it requires from licensees pursuant to the separation of their banking and securities activities.

### (c) Bulletins

The Commission issued several bulletins during the year. Bulletins were used to provide information and guidance to licensees and registrants and to the general public. The Commission utilized its website and the print media to issue bulletins providing information to investors based on observations arising from onsite examinations or practices which were discovered through the complaints process.

During the year a bulletin was issued to the securities industry reminding investors of the compliance requirements to which dealers are obliged to adhere when dealing in certificates of participation. A second bulletin dealt with Commercial Paper and the requirements under the Disclosure of Interest Regulations and reminded dealers and issuers of the importance of the information memorandum that is mandated in the regulations.

During the year bulletins were issued also to the insurance industry. These included:

- Guidance as to the responsibilities of appointed actuaries.
- Transitional arrangements relating to the treatment of claims equalization reserves.
- Guidance on how to complete certain sections of the annual statement to be filed with the Commission.

# (d) Jamaica Stock Exchange Rule Changes

Section 19 of the Securities Act requires that the Commission approve rule changes that are being made by the Council of the Jamaica Stock Exchange. During the period, the Commission approved an amendment to the definition of "acting in concert" under the rules governing takeovers and mergers. The amended definition includes as persons deemed to be acting in concert:

- A company with any of its pension funds.
- A fund manager with an investment company, unit trust or other person whose investment such fund manager manages on a discretionary basis.
- A financial or other professional adviser with its client in respect of shareholdings of the adviser and persons controlling, controlled by or under the same control as the adviser.

The Commission also approved an amendment to Rule 314 which governs the ex-dates for corporate actions by listed companies. The rule change reduced the ex-date for corporate actions from four (4) days to three (3) days to bring the Jamaican securities markets into compliance with the minimum requirements of international standards securities governing settlement cycles. International organizations including Organization International of Securities Commissions (IOSCO) and the Committee on Payment and Settlement Systems (CPSS) recommend that final settlement on a security should occur no later than three (3) days after the trade date.

### (e) Anti-Money Laundering

On February 27, 2003 the Commission was designated by the Minister of Finance as the competent authority under the Money Laundering Act with respect to:

- insurance companies registered under the Insurance Act;
- persons licensed under the Securities Act as a dealer or an investment adviser.

The competent authority is required to monitor the compliance of insurance companies, securities dealers and investment advisers with the provisions of the Money Laundering Act.

Table 1 – Number of Registered Intermediaries prior to the effective date of Insurance Act, 2001/Number of Intermediaries that Applied for Re-registration

NUMBER REGISTERED Dec. 31, 2001	NUMBER APPLIED FOR RE-REGISTRATION
25	24
5	2
24	12
1	1
1,136	884
1,191	923
	Dec. 31, 2001  25  5  24  1  1,136

### (f) Authorizations

### Insurance

### (i) Re-registration of Insurance Intermediaries

The Insurance Act, 2001 requires that all intermediaries that were in operation prior to the effective date of the Act be re-registered. The Act raised the requirements for registration of insurance agents and brokers including increased minimum capital, insurance cover for errors and omission and fidelity guarantee requirements which appeared to have affected the number of intermediaries that applied for re-registration. During the year therefore a significant portion of the Commission's activities was involved in the re-registration of intermediaries. Table 1 (on page 9) shows the number of registered intermediaries prior to the effective date of the Act and the number that applied for re-registration.

The transitional provisions of the Insurance Act, 2001 permit intermediaries to continue to do business in the class of business for which they were registered under the old Act until such time as their application for re-registration has been approved or denied. Three hundred and sixty-two (362) were approved during the year.

### (ii) New Registrations

Procedures including the new requirements for registration were documented and discussed with the various industry groups following the coming into effect of the Insurance Act, 2001. For the first time facultative placement brokers, loss adjusters, insurance consultants and individual agents are required to be registered in order to continue in business.

During the year the Commission registered two brokers, four facultative placement brokers, and one overseas re-insurance broker. One hundred and one (101) sales representatives were registered.

### **Securities**

During the year under review two (2) dealers and one hundred and sixty-five (165) dealers' representatives were registered by the Commission. There was also the registration and licensing of eleven (11) overseas mutual funds. Seventeen (17) dealers, mostly qualifying directors, and eighteen (18) dealers' representatives surrendered their licences. No licenses, registrations or approvals were revoked.

At the end of the financial year there were one hundred and twelve (112) licensed dealers and four hundred and eighty-nine (489) licensed dealers' representatives.

### **New Accreditation**

Securities dealers and dealers' representatives are required to complete a minimum course of study in

Table 2 - Number of Licensees/Registrants as at March 31, 2003

	LIFE INS. COS.	GENERAL INS COS	ASSOC. OF UNDER-WRITERS	INS. Brokers	INS. AGENTS	INS. SALES REPS.	SECURITIES DEALERS	SECURITIES DEALERS' REPS.	INV. Advisers	MUTUAL FUNDS	UNIT TRUST
LICENSED/ REGISTERED AT 31/3/02	8	14	1	24	12	1136	127	342	1	0	4
ADDITIONS				7	1	101	2	165		11	
CANCELLATION (VOLUNTARY)	IS (1)				(1)		(17)	(18)	(1)	(5) (NOTE 2)	
DID NOT RE-REGISTER						(252)					
LICENSED/ REGISTERED 31/3/03	7	14	1	31 (NOTE 1)	12	985	112	489	0	6	4

Note 1 – includes overseas brokers and facultative placement brokers

Note 2 – decrease in number due to merger of fund

securities that is approved by the Commission. During the year, the Commission in response to a request by a number of securities dealers considered and approved the Canadian Securities Industry Course (CSIC) as acceptable for the registration of dealer representatives. The CSIC is a program of study offered by the Canadian Securities Institute with a duration ranging from a minimum of three months to a maximum of two years. Designation of the CSIC as an accredited course for registration became effective January 1, 2003.

### (g) Investigations

The Commission carries out special investigations for three reasons:

- Investigations into suspected breaches of any relevant Act.
- Investigations of complaints received from the public.
- Investigations into the fit and proper status of persons applying to be licensed or registered under any of the relevant Acts.

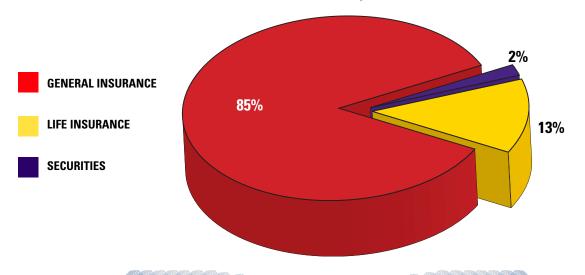
Table 3 – Investigations into Suspected Statutory Breaches

DESCRIPTION OF SUSPECTED BREACH	RELATED LEGISLATION
Unregistered person performing the function of an insurance intermediary	Section 70(1)-(2) of the Insurance Act.
Licensed Insurers paying compensation to an unregistered insurance intermediary for negotiating the renewal of insurance business.	Section 85(1)-(2) of the Insurance Act.

**Table 4 – Analysis of Complaints** 

GENEF	RAL INSURANCE	LIFE INSURANCE	SECURITIES	TOTAL	
Total complaints received	170	25	3	198	
Number of cases closed	74	9	0	83	
Percentage closed	44%	36%	0%	42%	

Pie Chart 1 – Complaints Received



During the review period, the Commission conducted two (2) investigations into suspected breaches of the Insurance Act. Table 3 (on page 11) contains information on the suspected breaches.

For the year a total of one hundred and ninety-eight (198) complaints were received from the public against licensees and registrants. 98% were received against registrants in the Insurance industry and 2% against licensees in the Securities industry. At the end of the year 42% of the cases of complaints were closed. Table 4 (on page 11) provides an analysis of the complaints recieved by the Commission during the year.

During the period seven (7) investigations were carried out in relation to persons applying for a licence or registration under the Securities Act and the Insurance Act or seeking senior positions of responsibility within the securities and insurance industries.

Both the Insurance Act and the Securities Act (as amended) stipulate that each of the persons managing or controlling entities covered under these Acts must be fit and proper. Not all applicants for fit and proper assessment are subjected to an investigation. Investigations are usually undertaken in, but are not limited to, the following situations:

- Inconsistencies identified in the application;
- External reports or other intelligence gathered highlighting financial problems, disregard for fiduciary responsibilities or an adverse employment or police record;
- Information supplied by the candidate that impacts negatively on the review process.

In carrying out its investigations the Commission will, amongst other things, take into account evidence that an applicant was:

- A director or member of senior management of a failed financial entity;
- A director or member of senior management of an intervened company;
- Disciplined in a civil suit or by a professional body for incompetence.

At the end of the year five (5) of the investigations were completed, with the remaining two (2) in progress.

### **Supervisory Activities**

### (a) Insurance

Reporting Requirement for Licensees

The Insurance Act, 2001 requires insurance companies to submit their annual statements to the Commission, certified by the company's auditor and actuary, within ninety days of the accounting year-end. The Insurance Regulations set the accounting year as January to December. The Regulations also require insurance companies to file quarterly reports to the Commission by the end of the month following the quarter-end.

During the review period, the Commission embarked on a project to assist the industry in improving the filing of statements. An electronic filing system was developed and partially implemented. Companies were required to file their annual statements for 2002 using the new system. This led to a significant improvement as returns were filed much earlier than the previous year when companies had to adjust to the new filing and accounting requirements. The component for the filing of quarterly statements was being tested at the end of the review period for implementation during the next financial year.

### **Examinations**

During the year the Commission enhanced its riskbased approach to supervision with the completion of two risk based insurance examination projects (for general and life insurance companies) and the commencement of a risk assessment project utilising the "CARAMELS" risk assessment model. The model assesses the risk level of a company's capital, asset quality, reinsurance, actuarial liabilities, management, earnings, liquidity (and asset/liability matching) and subsidiaries and related parties. This model provides a framework that ensures that the Commission has a comprehensive understanding of the financial condition and outlook of insurance companies so that corrective action can be taken when necessary. By the end of the year risk-based examinations on one life and seven general insurance companies were completed.

### (b) Securities

### Reporting Requirement for Licensees

During the previous financial year the Commission embarked on an initiative to expand and improve the information filed by licensees in their quarterly reports to the Commission. In this regard during the review period the Form C1 was amended and went into use for the reporting quarter ending December 2002. Some of the new requirements are the filing of information on investment dealings with related companies, detailed analysis of foreign government issues that dealers hold and currency exposure and trading schedules. Details of a dealer's assets and obligations which are to be reported were substantially broadened.

The enhancement of the C1 form and its usefulness was accompanied by the issuing of detailed explanatory notes and definitions aimed at securing consistent reporting of similar securities transaction and positions. As a part of the enhanced reporting environment a short form of the full C1 was also developed and implemented for monthly reporting by the largest ten dealers who control approximately 87% of the securities market. This monthly reporting aids closer tracking of selected securities systems data.

During the year the Commission provided guidance notes on the Management and Discussion

Analysis (MD&A) discourse required under the Securities Regulations. The guidance on the MD&A, which is intended to facilitate disclosure to investors, provides explanations in relation to liquidity and capital resources, effects of transactions with related parties, activities involving derivatives and the results of operations.

### **Examinations**

During the year the Commission developed and began implementation of a "CAMEL" risk assessment model to be used to assess the soundness of securities dealers. The model assesses the different risk areas of capital, assets, management, earnings and liquidity. During the review period a total of 18 on-site securities examinations were conducted. Table 5 below provides an analysis of the violations observed.

# Some of the most common violations uncovered related to:

# 1. Unregistered Persons Acting as Dealer's Representatives

In a number of instances some licensees were using unregistered persons to perform the functions of a dealer's representative. This is a violation of *Section* 10 of the Securities Act.

Table 5 – Violations of the Securities Act and Regulations Uncovered by Routine Examinations

LEGAL PROVISION VIOLATED	DESCRIPTION OF PROVISION	NUMBER OF VIOLATIONS 2002/03	NUMBER OF VIOLATIONS 2001/02
S10	Requirement to register dealer representatives	5	1
S36	Requirement to hold client funds in Trust Accounts	1	0
S38	Issue of Contract Notes	5	5
S39	Provision of disclosure of dealers interest in securities	es 3	5
S40	Provisions governing dealers dealing as principal	3	4
S43	Prohibition of short selling	1	0
S46	Prohibition of false and misleading statements	0	1
COB	Conduct of Business Regulations	46	47
DOI	Disclosure of Interest Regulations	7	1
L&R	Licensing and Registration Regulations	0	1
Total		71	65

### 2. Failure to Display Registration Certificates

Regulation 18 of the Securities (Conduct of Business) Regulations requires that the registration certificate of dealer's representatives be conspicuously displayed at the licensee's place of business. There were a number of cases where non-compliance with Regulation 18 was observed.

### 3. Standards of Professional Conduct

It was noted that there were no documented standards of professional conduct displayed at a number of the licensees examined. *Regulation 9 of the Securities (Conduct of Business) Regulations* requires that licensed securities dealers develop appropriate standards of professional conduct, which should be documented and displayed with a copy filed with the Commission.

### 4. Marketing Circulars

It was observed in a number of instances that dealers were issuing marketing circulars and brochures in contravention of *Section 39(1)* of the *Securities Act* which requires that dealers disclose the nature of their interest in the acquisition or disposal of any securities which they recommend by way of that written communication.

### 5. Contract Notes

A number of violations of the Securities Act were observed in relation to the issue of contract notes by dealers. These included breaches of the following provisions of the Act:

- Section 38(3)(c) which mandates dealers, when dealing as a principal in a transaction with a non-licensee, to disclose that they are so acting;
- Section 38(3)(f) which establishes that the
  contract note issued must contain the number,
  amount and a description of the securities that
  are the subject of the transaction.

### 6. Client Statements

There were several violations of Regulation 10 of the Securities (Conduct of Business) Regulations. This Regulation stipulates that dealers must provide their clients with periodic statements of account.

### 7. Dealing as Principal

It was observed that some dealers were issuing contract notes that did not satisfy the requirement contained in *Section 40(3) of the Securities Act*. This Section stipulates that a dealer, when dealing as a principal in a transaction with a non-licensee, must disclose that it is dealing as a principal and not as an agent on the relevant contract note.

### 8. Request for Proposal (RFP) Forms

Several licensees used RFP forms which did not comply with *Regulations* 8(2)(c) and 8(2)(d) of the Securities (Conduct of Business) Regulations. These Regulations require that the RFP, signed by clients on the opening of accounts with the dealer, must clearly state:

- the kind of authority (i.e. full discretion, partial discretion or no discretion) given to the portfolio manager, and
- the risk appetite of the client (i.e. aggressive, medium or conservative).

Licensees who were in violation of the Securities Act were issued Deficiency Letters which outlined the details of the violations and other concerns observed by the Commission during the examinations. Those licensees are required to indicate to the Commission in writing the action they have taken or plan to take to address the violation and other concerns.

Table 6- Training Summary 2002/2003

COURSE/SEMINAR	PROVIDER	NUMBER OF STAFF TRAINED
Risk Based Life Insurance Examinations	Deloitte & Touche	16
Risk Based General Insurance Examinations	Deloitte & Touche	16
Insurance Supervision	Toronto Leadership Centre	1
Insurance Supervision	CARTAC - Bahamas	2
International Accounting Standards	Institute of Chartered Accountants	11
Taxation & Statutory Payments	Institute of Management & Product	ion 1
Securities Supervision	Toronto Leadership Centre	1
Annual Actuary Symposium	Canadian Institute of Actuaries	1
Latin American & Caribbean Enforcement Market Oversight	CNBV – Mexico	1
Human Resources	Central Banking – UK	1
Capital Market Development	International Law Institute	1
Securities Enforcement	USSEC	2

## Human Resource Development

The Commission continued to make significant investments in developing its staff. A summary of staff training provided during the year is shown in Table 6 above.

### **Public Education**

One of the functions of the Commission as outlined in the Financial Services Commission Act, 2001 is to "promote public understanding in the operation of prescribed financial institutions". Towards this end the Commission has set as one of its strategic objectives "to educate licensees, investors, policyholders, pension plan members and the general public on developments and interpretation of securities, insurance and pensions legislation.

During the reporting period the Commission focused its efforts on developing a detailed plan of action for its public education mandate and mobilizing that plan into action. Three brochures were developed during the year, one focusing on the Commission and one each on the securities and the insurance industries.

In November 2002, the Commission held its first seminar with the theme "Integrated Supervision – The New Regulatory Framework". The Seminar was attended by over 300 persons including practitioners of the life and general insurance and securities industries. It was aimed at familiarizing licensees, investors and the general public with the regulatory framework within which the Commission will operate. The Seminar also examined the impact of international accounting standards on the insurance and securities industries.

During the year also, the Commission began discussions with the Jamaica Deposit Insurance Corporation (JDIC) to work out a path of mutual collaboration in the area of public education. One of the areas identified for resource sharing was that of community outreach. This led to a seminar in February hosted by the JDIC in which the Commission participated, the understanding being an alternating hosting of these seminars.

By the end of the financial year the Commission was at an advanced stage in its planning for another seminar aimed specifically at the insurance industry.

### **Financial Review**

For the financial year ended March 31, 2003 excess of expenditure over revenue was \$1.8 million before grants totaling \$46.8 million provided by the Government of Jamaica (GOJ), resulting in a surplus for the year of \$45 million. Of the amount received from the GOJ \$29.9 million (provided from the budget) was used to cover operating costs and \$16.9 million was used for the purchase of computer equipment under a loan agreement with the Caribbean Development Bank.

### (i) Revenue

Revenue for the period was \$136 million earned primarily from fees payable under the Securities and Insurance Acts.

The Commission earned approximately \$24 million from the securities industry. Table 7 shows a breakdown of the revenue sources.

consultations with members of the securities industry over several months. The new fee structure resulted in an increase in the annual licensing fee for dealers from \$50,000 per annum to \$120,000 per annum and for dealers representatives from \$10,000 per annum to \$16,000 per annum. There was also the introduction of annual and quarterly filing fees at \$5,000 and \$3,000 respectively.

Revenue from the insurance industry totaled approximately \$106 million for the year. Table 8 gives a breakdown of the revenue sources.

### (ii) Operating Expenditure

Total expenses for the year was \$138 million against a budget of \$162 million. The lower than budgeted expenditure was due primarily to the lower staff costs arising from a lower than projected staff complement caused by the challenges which the Commission encountered in recruiting staff.

**Table 7 – Revenue Earned from Securities Industry** 

SOURCE	TOTAL REVENUE (\$'000)	% OF TOTAL
Dealers Licence	10,195	42
Stock Exchange Transactions	10,021	41
Application and Filing Fees	1,859	8
Commercial Paper, etc.	749	3
Mutual Funds	1,452	6
Total	24,276	100

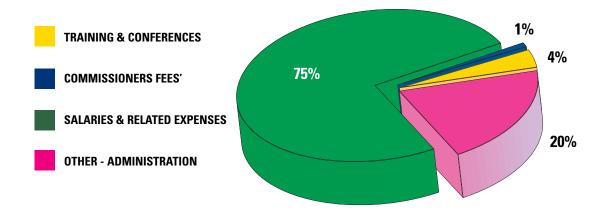
The Securities (Licensing and Registration) (Amendment) Regulations, 2002 and the Securities (Conduct of Business)(Amendment) Regulations, 2002 were signed on September 18, 2002 and gave effect to the new fee structure which had been proposed by the Commission during the 2001/2002 financial year. These changes followed

At the end of the year the Commission employed 62 persons compared to the budget of 77. Salaries and related staff costs accounted for 75% of total costs, administrative expenses 20%, training and conferences 4% and fees paid to commissioners 1%. (see pie chart 2 on page 17)

**Table 8 – Revenue Earned from Insurance Industry** 

SOURCE	TOTAL REVENUE (\$'000)	% OF TOTAL
Renewal Fees	102,243	96
Re-registration fees	2,919	3
Filing Fees, etc.	1,019	1
Total	106,181	100

Pie Chart 2 - Breakdown of Expenses



### (iii) Liquidity

The Commission is not permitted to borrow and requires liquidity to finance its operations, for capital purchases and to meet unexpected contingencies. At March 31, 2003 the Commission held cash and resale agreements totaling \$48 million, current assets of \$71 million and current liabilities of \$17 million for a current ratio of 4.21:1 (2002 – 3.57:1).

# Initiatives Underway at Year End

### Proposed Private Pensions Legislation

The preparation of draft legislation is significantly advanced and a Bill is expected to be tabled in Parliament during the next financial year. The development of application and reporting forms is at an advanced stage.

The Commission began consultation with various pension stakeholders who were encouraged to establish a pensions association. A committee comprised of members from the Taxpayer Audit and Assessment Department and the Commission

### (iv) Capital Expenditure

Capital expenditures of \$17.8 million were made during the year. \$16.9 million was spent on information technology to upgrade the computer network and provide equipment for all staff. The balance was spent on furniture and other office equipment.

was formed and has been meeting frequently in order to promote inter-agency communication on issues related to pensions.

### Collective Investment Schemes

Following consultation with the securities industry on the recommendations for the reform of regulations for pooled investment funds, generally called "Collective Investment Schemes" (CIS), the Commission is proceeding to the drafting of the regulations.

### Amendments to Mutual Funds Regulations

Ahead of the comprehensive reform contemplated in the proposed CIS regulations, the Commission has embarked on a review of the Mutual Funds Regulations aimed at recommending amendments which would facilitate the development of mutual funds within the local market.

### Interim Capital Standards

Towards the end of the last financial year the Securities (Licensing and Registration) Regulations ("L&R") were amended to provide for risk based capital standards for the securities industry. In accordance with regulations 2A and 2B of the L&R the risk weighting and capital ratios are being specified for adoption in the new financial year after consultation with the industry.

### Margin Requirements for Repurchase Agreements

The Securities Act makes provisions for regulations preventing excessive use of credit by securities dealers. Towards the end of the year the Commission commenced the development of rules to regulate the use of credit for the purchase or carrying of large securities positions. The rules will identify the securities which may be used as collateral and specify the conditions under which dealers may borrow funds on an unsecured basis. The intention is to promulgate these rules as regulations.

### • Guidelines for Margin Trading

Margin trades refer to securities transactions where a brokerage firm lends the client a part of the purchase price and the securities so acquired are pledged by the client to the brokerage firm as collateral for the loan. Domestic dealers access this facility, made available to them by their broker-dealers in the USA with whom they maintain accounts and business relationships. In the USA the advance of credit to acquire securities is regulated by securities credit rules.

In order to guide brokers in their margin trading activities, the Commission developed an industry guideline detailing the requirements that are to be met by dealers who acquire securities on margin. The guidelines, to be issued after consultation with the industry, outline requirements covering the following:

- (i) accounting treatment
- (ii) capital allocation
- (iii) disclosures and the
- (iv) identification of manageable securities

It is intended that the guidelines will be promulgated as regulations.

### New Fee Structure

The Commission is empowered to impose fees and charges on regulated entities and other users of its services.

In an effort to streamline the fee structure and align total fees with the cost of regulation the Commission developed a fee and charge policy based on seven key principles.

- 1. Full Cost Recovery The Commission should operate, in the long term, on a full cost recovery basis. The Commission is intended to perform its functions in an independent and impartial manner. One important aspect of independence requires that the Commission be self financing on a sustained basis. Furthermore, given its mandate, the Commission benefits the consumers of general insurance, life insurance, securities and pension services and the providers of these services by increasing stability and confidence in the industries it supervises. Therefore, it should be those industries, rather than the taxpayer at large, that should fully fund the operations of the Commission. accordance with this principle, however, the Commission should not seek to collect revenue in excess of its costs on a continuous basis.
- 2. Revenue Based on Regulatory Effort The revenue earned from different industry sectors should be based on regulatory effort. This suggests that industry sectors that require higher levels of regulatory effort resulting in higher costs for the Commission should be required to pay higher fees. In other words, there should ordinarily be no cross subsidization among different industries. Similarly, within a given industry it is generally accepted that larger companies typically require more regulatory effort than smaller companies with the implication being that larger companies should generally pay higher fees.

- 3. Revenue Stability The Commission's revenue should be stable over time. As the Commission matures its expenditure should become relatively stable and be influenced primarily by inflation, the growth of the various financial services industry sectors and productivity gains in the operation of the Commission. As a result, it is beneficial for the Commission to have a stable source of revenue. Reliance on a volatile revenue source which has both windfall gains and windfall losses may result in an inefficient system of regulation. Regulated entities also benefit from stability and reasonable certainty with respect to their fee costs.
- 4. Contingency Reserve Fund The Commission, for reasons of operational stability, should build a contingency reserve fund. The closure of a regulatory agency for even a short period of time due to a funding shortfall could have catastrophic results. For this reason the Commission should build a contingency reserve fund as a cushion to protect itself against periods of below normal fee revenue or periods of higher than normal expenditure. It was proposed that the Commission should initially set fees at full cost recovery plus 10 percent until it had established a contingency reserve fund which approximates fifty percent of expenditure. Once this target has been reached, it was proposed that fee levels would reflect cost recovery only and that fee levels would be reduced if the contingency reserve fund exceeded its predetermined level.
- 5. Ease of Understanding and Simplicity of Administration To the extent possible, the formulae used to determine the Commission's fees should be straightforward and easy to understand by both the Commission and those paying the fees. Ease of understanding will help ensure that those paying the fees can be satisfied that fees and charges are being levied in a fair and equitable manner. In addition, the processes used by the Commission to determine fee levels and to collect fees should be relatively simple and straightforward so that the Commission's administration costs can be minimized.
- **6. Ease of Verification** To the extent possible, the parameters on which fees are based should be

easy to verify by the Commission. For example, if it is decided that fees in the life insurance sector are to be based on premiums or alternatively on assets, the premiums or assets used as the fee determination base should be those reported in the audited annual financial statements of each company. The fact that such statements are subject to independent audit and scrutiny will help ensure that everyone is treated in an equitable manner. Similarly those paying the fees should be provided with sufficient information to verify that the Commission is, in fact, levying fees at an appropriate level. In this context, the Commission will report its fee collections once each year as part of its independently audited financial statements. These statements are publicly available and must by law be submitted to the Minister for tabling in Parliament.

7. Predetermined Review Dates - A periodic review should be made with respect to the fee and charge policy of the Commission. As conditions change, it may be necessary to adjust specific fees either upward or downward or make changes in fee policy. In this context, the Commission will undertake a review of its fee and charge policy at least every 2 years. Each review will be accompanied by public consultation with those affected.

After a period of consultation with the securities and insurance industries the principles were adopted as the basis for the setting of the Commission's fees. However, based on comments received, the Commission agreed to withdraw the implementation of the principle relating to the contingency reserve fund for the time being.

At the end of the period under review the Commission had developed a new fee structure for the securities and insurance industries. Consultation on the new fee structure will commence early in the new financial year with a view to full implementation by mid year.



# **FSC STATUTES & REGULATIONS**

The statutory duties and responsibilities of the Commission and the regulatory provisions governing financial services in the areas of insurance and securities are stipulated in a number of laws. The following is a brief summary of the laws currently in effect.

**The Financial Services Commission Act** – enacted in May 2001; it provides for the basic functions and responsibilities of the Commission.

**The Insurance Act** – enacted in December 2001; it provides for the regulation of insurance business in Jamaica.

**The Insurance Regulations** – promulgated in December 2001; it provides detailed rules and regulations governing individuals and companies operating in the insurance industry.

The Insurance (Actuaries) (Life Insurance Companies) Regulations – promulgated in December 2001; it sets out the rules governing the preparation of actuarial reports and the business conduct of actuaries for life insurance companies.

The Insurance (Actuaries) (General Insurance Companies) Regulations – promulgated in March 2002; it sets out the rules governing the preparation of actuarial reports and the business conduct of actuaries for general insurance companies.

**The Securities Act** – enacted in December 1993 and last amended in 2001; it provides for the licensing, operation and supervision of entities dealing in securities as well as regulation of the capital markets.

**The Securities (Licensing and Registration) Regulations** – promulgated in 1996 and last amended in December 2002; it provides for the licensing and registration of dealers, investment advisors, their representatives and responsible officers.

**The Securities (Take-Overs and Mergers) Regulations** – promulgated in September 1999 and amended in 2000; it deals with mergers and acquisitions of public companies.

**The Securities (Disclosure of Interest) Regulations** – promulgated in April 1999; it provides for the disclosure of information relating to public companies as well as issuers of commercial paper.

### The Securities (Conduct of Business) Regulations

- promulgated in April 1999 and amended in 2002; it deals with the dealer/client relationship and guidelines for filing of financial information by licensed dealers.

**The Securities (Mutual Funds) Regulations** – promulgated in September 1999; it stipulates the rules for the business operation and supervision of mutual funds. It also contains specific provisions concerning the protection of investors.

The Securities (Central Securities Depository) Regulations – promulgated in 2000; it deals with the operational procedures of a central securities depositary.

**The Unit Trusts Act** – enacted in 1972 and last amended in May 2001; it governs the operation of unit trusts.

The Unit Trusts (Registration of Schemes) Regulations – promulgated in 1971; it governs the process of registration for unit trusts.

**The Unit Trusts (Books and Document) Regulations** – promulgated in 1973; it deals with the books and records which should be maintained by unit trusts.

# COMPENSATION OF

# **EXECUTIVE MANAGEMENT**

	2002/03
Salary range of Executive Management	\$2,404,020 - \$4,320,000 per annum
Gratuity in lieu of Pension	25% of basic salary
Motor Vehicle Allowance of Executive Management	
Motor Vehicle Allowance of Executive Management  (a) Executive Director	Fully Maintained Company Car

### Notes

Executive Management includes the Executive Director, Senior Directors (4), Chief Actuary (1), Director (1) and General Counsel (1). Each member of Executive Management is on contract and is therefore not on the Commission's Pension plan. They are however eligible for health insurance and life insurance coverage on the Commission's group health plan.

# LIST OF REGISTERED LICENSEES

### AS AT MARCH 31, 2003

### **DEALERS** (companies)

There were fifty-nine (59) licensed securities dealers (companies) as at March 31, 2003.

- 1. Alliance Investment Management Limited
- 2. ATL Group Pension Fund Trustees Nominee Limited
- 3. Bank of Nova Scotia Jamaica Limited
- 4. Barita Investments Limited
- 5. Barita Portfolio Management Limited
- 6. Capital & Credit Merchant Bank Limited
- 7. Capital & Credit Securities Limited
- 8. Capital Options Limited
- 9. Capital Solutions Limited
- 10. CitiBank N.A.
- 11. CitiFinance Limited
- 12. CitiMerchant Bank Limited
- 13. CWJ Employees Co-operative Credit Union Limited
- 14. DB&G Merchant Bank Limited
- 15. Dehring, Bunting & Golding Limited
- 16. E.W. Lewis Investments Limited
- 17. Edward Gayle & Company Limited
- 18. First Global Bank Limited
- 19. First Global Stockbrokers Limited
- 20. First Life Insurance Company Limited
- 21. FirstCaribbean International Bank (Jamaica) Limited
- 22. FirstCaribbean International Securities Limited
- 23. George & Branday Limited
- 24. Gleaner Company Limited
- 25. Grace Pension Management Limited
- 26. Guardian Asset Management Limited
- 27. Guardian Life Limited
- 28. Ideal Finance Corp. Limited
- 29. Ideal Portfolio Services Limited
- 30. International Trust & Merchant Bank Limited

- 31. Intertrade Finance Corp. Limited
- 32. Island Life Insurance Company Limited
- 33. Issa Trust & Merchant Bank Limited
- 34. ITMB Finance & Investments Limited
- 35. Jamaica Agricultural Development Foundation
- 36. Jamaica Co-operative Credit Union Limited
- 37. Jamaica Money Market Brokers Limited
- 38. Jamaica National Building Society
- 39. JMMB Securities Limited
- 40. JN Fund Managers Limited
- 41. Lets Investments Limited
- 42. Life of Jamaica Limited
- 43. MF&G Trust & Finance Limited
- 44. M/VL Stockbrokers Limited
- 45. Manufacturers Sigma Merchant Bank Limited
- 46. Mayberry Investments Limited
- 47. National Commercial Bank Jamaica Limited
- 48. NCB Investments Limited
- 49. Pan Caribbean Merchant Bank Limited
- 50. Paul Chen Young & Company Limited
- 51. Prime Life Assurance Company Limited
- 52. RBTT Bank Jamaica Limited
- 53. Scotia Jamaica Investment Management Limited
- 54. Sierra Investments Management Limited
- 55. Sterling Asset Management Limited
- 56. Victoria Mutual Wealth Management Limited
- 57. Village Resorts Limited
- 58. West Indies Trust Company Limited
- 59. West Indies Union Development Company Limited

### **DEALERS** (individuals not associated with a company)

There were twenty-one (21) licensed securities dealers (not associated with a company) as at March 31, 2003:

1. Bailey, Lorreston 12. McIntosh, Howard 2. Burrowes, James 13. Miller, Courtney 3. Evans, Omri 14. Muirhead, Michael 4. Foster, Noel 15. Nelson, Gary 5. Golding, Theodore 16. Richards, Kevin 6. Harrison, Verley 17. Riley, C. Roy 7. Holmes, Oliver 18. Scott, Ewart 8. Hudson, A.C. 19. Shirley, Sandra 9. Issa, Christopher 20. Stewart, Errol

### **DEALERS** (individuals associated with a company)

10. James, Rex

11. Johnson, Roy

# There were thirty-two (32) licensed securities dealers (associated with a company) as at March 31, 2003:

1. Allie, Joseph 13. Hall, Peta-Rose 25. Moss, Kathleen 2. Berry, Christopher 14. Hudson, Arthur 26. Richardson, Dwight 3. Berry, Konrod 15. Humphries-Lewin, Rita 27. Ross, Charles 4. Campbell, Raymond 16. Issa, John 28. Shirley, Andral 'Jack' 5. Campbell, Ryland 17. Jarrett, Earl 29. Tanna, Dhiru 6. Chin, Peter 18. Lewis, Everton 30. Wallace, Adrian 7. Clarke, Oliver 31. Watson, Cecile 19. Marzouca, Dorothy 8. Crooks, Claudette 20. Massias, William 32. Wray, Wayne 9. Croskery, Hugh 21. McKie, Edwin

21. Taffe, Joseph

10. Curtis, Henry
11. Duncan Scott, Donna
12. Evans, Vitus
22. Melhado, Peter
23. Ming, Herman
24. Moore, Earl

### **UNIT TRUSTS**

### There were four (4) unit trust fund managers as at March 31, 2003:

- 1. Barita Unit Trust Management Limited
- 2. DB&G Unit Trust Managers Limited

- 3. Jamaica Unit Trust Services Limited
- 4. Sigma Unit Trust Managers Limited

### **MUTUAL FUNDS**

### There were Six (6) mutual funds as at March 31, 2003:

- 1. AIC Corporate Funds
- 2. Scotiabank Money Market Fund
- 3. Scotiabank US Dollar Bond Fund

- 4. Scotiabank Global Growth Fund
- 5. Scotiabank Canadian Growth Fund
- 6. Scotia US Growth Mutual Fund

### **INSURANCE AGENTS**

### *There were twelve (12) insurance agents registered as at March 31, 2003:*

- 1. Apex Insurance Agency Limited
- 2. Associated Owners Insurance (Agents) Limited
- 3. Cooke & Andrew Insurance Agency Limited
- 4. Crichton Insurance Agency Limited
- 5. Excel Insurance Agents Limited
- 6. Desmond Mair (Insurance) Limited

- 7. Mutual Agency (Insurance) Limited
- 8. Mutual Enterprises (Insurance) Agents Limited
- 9. Nationwide Insurance Agents and Consultants Limited
- 10. NUCS Co-operative Insurance Services Limited
- 11. Prime Insurance Agency Limited
- 12. Riviera Insurance Agency Limited

### **INSURANCE BROKERS**

### There were thirty-one (31) insurance brokers registered as at March 31, 2003:

- 1. Allied Insurance Brokers Limited
- 2. Assurance Brokers of Jamaica Limited
- 3. Billy Craig Insurance Brokers Limited
- 4. Consolidated Insurance Brokers Limited
- 5. Covenant Insurance Brokers Limited
- 6. Evals Insurance Brokers Limited
- 7. Firm Insurance Brokers Limited
- 8. Fraser Fontaine & Kong Limited Insurance Brokers
- 9. GEM Insurance Brokers Limited
- 10. Genesis Insurance Brokers Limited
- 11. Guardian Insurance Brokers Limited
- 12. International Insurance Brokers Limited
- 13. Jamaica Citadel Insurance Brokers Limited
- 14. Marathon Insurance Brokers Limited
- 15. Maritime General Insurance Brokers Limited
- 16. Mutual Security Insurance Brokers Limited
- 17. National Property & General Insurance Brokers Limited

- 18. Orion Insurance Brokers Limited
- 19. Progressive Insurance Brokers Limited
- 20. Scotia Jamaica General Insurance Brokers Limited
- 21. Solid Life and General Insurance Brokers Limited
- 22. Spectrum Insurance Brokers Limited
- 23. Thwaites Finson Sharp Insurance Brokers Limited
- 24. Trustee Insurance Brokers Limited
- 25. Zenith Insurance Brokers Limited

### **Facultative Placement Brokers**

- 26. Firm Insurance Brokers Limited
- 27. Fraser Fontaine & Kong Limited Insurance Brokers
- 28. Scotia Jamaica General Insurance Brokers Limited
- 29. Thwaites Finson Sharp Insurance Brokers Limited

### **Overseas Reinsurance Brokers**

- 30. Benfield Limited
- 31. J. B. Boda Company (UK) Limited

### **ASSOCIATION OF UNDERWRITERS**

There was one association of underwriters registered as at March 31, 2003:

Lloyd's of London

### LIFE INSURANCE COMPANIES

*There were seven (7) life insurance companies registered as at March 31, 2003:* 

- 1. CUNA Mutual Insurance Society
- 2. First Life Insurance Company
- 3. Guardian Life Limited
- 4. Island Life Insurance Company Limited

- 5. Life of Jamaica Limited
- 6. NCB Insurance Company Limited
- 7. Scotia Jamaica Life Insurance Company Limited

### GENERAL INSURANCE COMPANIES

There were fourteen (14) general insurance companies registered as at March 31, 2003:

- 1. American Home Assurance Co.
- 2. British Caribbean Insurance Company Limited
- 3. Blue Cross of Jamaica
- 4. Dyoll Insurance Company Limited
- 5. General Accident Insurance Jamaica Company Limited
- 6. Globe Insurance Company of the West Indies Limited
- 7. Jamaica International Insurance Company Limited

- 8. Key Insurance Company Limited
- 9. NEM Insurance Company (Jamaica) Limited
- 10. The Insurance Company of the West Indies Limited
- 11. The Jamaica General Insurance Company Limited
- 12. United General Insurance Company Limited
- 13. Victoria Mutual Insurance Company Limited
- 14. West Indies Alliance Insurance Company Limited



PICTORIAL - FSC'S LAUNCH





# AUDITORS' REPORT & FINANCIAL STATEMENT

FOR THE PERIOD ENDING MARCH 31, 2003

# AUDITORS' REPORT

# AS AT MARCH 31, 2003



### KPMG Peat Marwick Chartered Accountants

P.C. Boy 76 Kingston Jameica The Victoria Mutual Building & Duke Street Kingston Jamaica Teleta• = 1.876( 922-6640 Teleta• = 1.876( 922-7195 = 1.976( 922-7195 = 1.976( 922-7195 email from all **№** conglicom pro

To the Commissioners of FINANCIAL SERVICES COMMISSION

### **Auditors' Report**

We have audited the financial statements, set out on pages 32 to 42, and have obtained all the information and explanations, which we required. The financial statements are the responsibility of the commissioners and management. In preparing the financial statements, the commissioners and management are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards and apply the going concern basis, unless it is inappropriate to presume that the Commission will continue in business for the foreseeable future. The commissioners and management are responsible for keeping proper accounting records, for safeguarding the assets of the Commission, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the commissioners and management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith and have been prepared in accordance with generally accepted accounting principles in Jamaica, modified on the bases set out in notes 2(a) and (e), give a true and fair view of the state of the Commission's affairs as at March 31, 2003 and of its surplus and cash flows for the year then ended.





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# **BALANCE SHEET**

# AS AT MARCH 31, 2003

	<b>Notes</b>		
		<u>2003</u>	<u>2002</u>
CURRENT ASSETS			
Cash		16,220,056	3,431,211
Resale agreements	3	32,000,000	3,000,000
Accounts receivable		20,473,292	27,220,872
Taxation recoverable, net	4	2,415,488	1,328,433
		71,108,836	34,980,516
CURRENT LIABILITIES			
Accounts payable		6,853,938	5,091,731
Deferred fees		10,018,000	4,704,743
		16,871,938	9,796,474
WORKING CAPITAL		54,236,898	25,184,042
FIXED ASSETS	5	23,847,298	7,921,132
		\$78,084,196	33,105,174
Financed by			
Financed by: RESERVES	6	\$ <u>78,084,196</u>	33,105,174



The accompanying notes form an integral part of the financial statements.

# INCOME & EXPENDITURE ACCOUNT & STATEMENT OF TOTAL RECOGNISED

# **GAINS & LOSSES**

AS AT MARCH 31, 2003 (with comparatives for eight months)

### **Notes**

	<u>2003</u>	<u>2002</u>
	(Twelve months)	(Eight months)
INCOME		
Fees	131,237,720	37,794,680
Interest income	4,700,891	287,427
	135,938,611	38,082,107
EXPENDITURE		
Advertising	2,165,901	67,380
Audit	300,000	130,000
Building maintenance	2,982,853	-
Commissioners' fees	1,818,514	1,353,635
Depreciation	2,665,441	703,822
Entertainment	<u>-</u>	12,261
Motor vehicle expenses	1,894,428	1,095,786
Office expenses	4,710,162	899,883*
Printing and stationery	1,736,530	851,512
Professional fees	5,689,633	4,947,265
Public seminars and meetings	312,642	908,048
Rent	2,700,180	1,655,190*
Staff costs	102,855,434	45,681,898
Subscriptions	748,343	642,693
Travelling	137,323	354,737
Training and conferences	5,747,885	491,849
Utilities	1,319,782	691,603
	137,784,851	60,487,562
Net expenditure from operations	( 1,846,240)	(22,405,455)
Gain on disposal of fixed assets		66,288
Net expenditure before grants	( 1,846,240)	(22,339,167)
Grants	7 46,825,262	45,500,000
Surplus for the year/period, being total		
gains recognised for the year/period	\$ <u>44,979,022</u>	23,160,833

The accompanying notes form an integral part of the financial statements.

<sup>\*</sup> Reclassified to conform to current year's presentation

# STATEMENT OF CASH FLOWS

# AS AT MARCH 31, 2003 (with comparatives for eight months)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year/period	44,979,022	23,160,833
Adjustment to reconcile surplus for the year/period		
to net cash provided by operating activities:		
Depreciation	2,665,441	703,822
Fixed assets donated	(14,600,000)	-
Gain on disposal of fixed assets		( 68,288)
	33,044,463	23,796,367
Decrease/(increase) in current assets		
Resale agreements	(29,000,000)	200,000
Accounts receivable	6,747,580	(24,129,811)
Taxation recoverable	( 1,087,055)	( 31,674)
Increase in current liabilities		
Accounts payable	1,762,207	4,744,771
Deferred fees	_5,313,257	1,615,255
Net cash provided by operating activities	16,780,425	_ 6,194,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to fixed assets	( 3,991,607)	( 4,298,090)
Proceeds from disposal of fixed assets	-	365,622
· ·		
Net cash used by investing activities	(_3,991,607)	(_3,932,468)
Net increase in cash	12,788,845	2,262,440
Cash at beginning of the year/cash taken over from the		
Securities Commission, being cash at beginning of the perior	d 3,431,211	1,168,771
Securities Commission, being cash at beginning of the peno	u	1,100,771
Cash at end of the year/period	\$16,220,056	3,431,211
' ' '		

The accompanying notes form an integral part of the financial statements.

AS AT MARCH 31, 2003 (with comparatives for eight months)

### 1. The Commission

The Financial Services Commission (The Commission) is a statutory not-for-profit organization established under the Financial Services Commission Act 2001 (the Act).

The principal functions of the Commission are as stated in Section 6 (1) of the Act, which states:

For the purpose of protecting customers of financial services, the Commission shall:

- a) supervise and regulate prescribed financial institutions;
- b) promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
- c) promote stability and public confidence in the operations of such institutions;
- d) promote public understanding of the operation of prescribed financial institutions;
- e) promote the modernisation of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness.

On August 2, 2001, all assets, rights and liabilities of the Securities Commission in existence on that date were transferred to and vested in the Financial Services Commission which commenced operations on that day. On the same date the FSC assumed responsibility for Unit Trusts under the Unit Trusts (Amendment) Act, 2001. With the passing of the new Insurance Act 2001, the Commission assumed regulatory responsibility for the insurance industry, on the appointed day (December 21, 2001).

During the prior period, the Government of Jamaica (GOJ) through its agencies, the Superintendent of Insurance and the Financial Sector Adjustment Company (FINSAC), donated certain fixed assets to the Commission. These assets were brought in at valuation.

These financial statements are presented in Jamaican dollars and cover the year ended March 31, 2003, with comparatives for the period August 2, 2001 to March 31, 2002. (Unlike the Securities Commission, which had a December 31 year-end date, the Commissioners have decided on a March 31, year-end date for the Financial Services Commission).

The Commission had in its employment 62 (2002:58) employees as at March 31, 2003, out of an establishment of 77 (2002:77) employees.

### 2. Basis of preparation and significant accounting policies

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets taken over at valuation, and in accordance with Jamaican generally accepted accounting principles ("GAAP"). GAAP are substantially codified in statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica. The significant accounting policies used in the preparation of the financial statements are summarised below and, except as stated in notes 2(a) and (e) below, conform, in all material respects, to GAAP.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the income and expenses for the year/period then ended. Actual amounts could differ from these estimates.

### AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### 2. Basis of preparation and significant accounting policies (cont'd)

The significant accounting policies are as follows:

### (a) Grants:

Grants are accounted for on the cash basis.

### (b) Depreciation:

Fixed assets, with the exception of leasehold improvements, are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

Motor vehicles20%Office furniture and equipment10% & 25%Computer equipment25%

### (c) Capital expenditure:

Amounts utilized from government grants for the purchase of fixed assets, including donated assets and advances to secure future purchases, are transferred to capital reserve. An amount equivalent to the annual depreciation charge on the relevant fixed assets is transferred from capital reserve to the general fund.

### (d) Foreign currencies:

Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are included in the profit and loss account.

### (e) Fees:

### (i) Securities

Application fees for registration as dealers, dealers' representatives, responsible officers, investment advisers and mutual funds, which are payable on application along with fees from commercial paper, are taken to income on receipt. Annual license fees from dealers, dealers' representatives, responsible officers, investment advisers and mutual funds are deferred and recognized as income in the period to which they relate. Fees from traders on the stock exchange are recognized as income in the year to which they relate.

### AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### 2. Basis of preparation and significant accounting policies (cont'd)

The significant accounting policies are as follows (cont'd):

### (e) Fees (cont'd)

### (ii) Insurance

In accordance with the new Insurance Act, 2001, which came into effect on December 21, 2001 all existing insurance companies, agents, brokers and sales representatives, were required to re-register with the FSC. Reregistration fees as well as fees for new registration for insurance companies, agents, brokers, sales representatives and other insurance intermediaries are taken to income on receipt.

Renewal fees from insurance companies are recognized as income in the year to which they relate. Renewal fees for life insurance companies are calculated based on gross first year premium income and on premium income for employee benefits products and are payable quarterly in arrears. For general insurance companies renewal fees are calculated based on gross premium income and are also payable quarterly in arrears. In the prior period, the insurance fees applicable to and included in the income and expenditure account relate only to the quarter ended March 31, 2002.

### (f) Resale agreements:

Securities purchased under resale agreements ("resale agreements") are accounted for as collateralised financing.

### 3. Resale agreements

Resale agreements represent purchases of Government of Jamaica Local Registered Stocks by the Commission from a broker under agreement to resell them on specified dates (within a year), at specified amounts.

The interest rates on resale agreements were 12.80% and 17.85% (2002: 13.50%) as at the year/period-end.

### 4. Taxation recoverable, net

Taxation recoverable represents tax withheld by financial institutions on interest income earned on balances held with those institutions. The balance is stated net of taxation on the taxable earnings of the Securities Commission, which was subject to income tax (see note 1).

AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### 5. Fixed assets

	<u>Motor</u> <u>vehicles</u>	Office furniture and equipment	Computer equipment	<u>Total</u>
At cost or valuation:				
March 31, 2002	4,037,016	8,278,324	3,906,242	16,221,582
Additions	173,043	1,484,178	16,934,386	18,591,607
March 31, 2003	4,210,059	9,762,502	20,840,628	34,813,189
Broken down:				
At cost	4,210,059	6,556,736	20,247,628	31,014,423
At valuation	-	3,205,766	593,000	3,798,766
	4,210,059	9,762,502	20,840,628	34,813,189
Depreciation:				
March 31, 2002	2,457,364	3,071,287	2,771,799	8,300,450
Charge for year	388,392	1,473,820	803,229	2,665,441
March 31, 2003	2,845,756	4,545,107	3,575,028	10,965,891
Net book value:				
March 31, 2003	\$1,364,303	5,217,395	17,265,600	23,847,298
March 31, 2002	\$1,579,652	5,207,037	1,134,443	7,921,132

Office furniture and equipment and computer equipment donated by the Government of Jamaica (see note 1) were valued as at February 25, 2002 on a fair market valuation of \$3,205,766 and \$593,000 respectively by Delano Reid and Associates Limited.

### 6. Reserves

	<u>General</u>	Capital Reserve [see note below]	<u>Total</u>
Balance transferred from Securities Commission			
(see note 1)	5,067,011	1,078,564	6,145,575
Periodic depreciation charge transfer	703,822	( 703,822)	-
Surplus arising on valuation of fixed assets (see note 5)	- A	3,798,766	3,798,766
Surplus for the period	23,160,833	<u> </u>	23,160,833
Balance at March 31, 2002	28,931,666	4,173,508	33,105,174
Periodic depreciation charge transfer	2,158,665	(2,158,665)	-
Transfer of capital grants from income and			
expenditure account to capital reserve	( 16,942,000)	16,942,000	-
Surplus for the year	44,979,022		44,979,022
Balance at March 31, 2003	\$ <u>59,127,353</u>	18,956,843	78,084,196

### AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### 6. Reserves (cont'd)

### Note:

This includes fixed assets valued at \$1,078,564 taken over from the Securities Commission. These assets were donated by the United States Agency for International Development through the Ministry of Finance for use by the Commission.

The current year transfer of capital grants from the income and expenditure account represents fixed assets donated by the Government of Jamaica through a loan from the Caribbean Development Bank, amounting to \$16,942,000 (see note 7).

### 7. Grants

<u>2003</u>	<u>2002</u>
29,883,262	45,500,000
16,942,000	<u>-</u>
\$46,825,262	45,500,000
	29,883,262 16,942,000

The revenue grants represent budgetary drawdowns received from the Ministry of Finance, Government of Jamaica, to cover some operating expenses.

### 8. Taxation

Under Section 14 of the Financial Services Commission Act 2001, the Commission is not subject to income tax.

### 9. Pension scheme

Effective June 1, 1996, the Securities Commission commenced operations of a contributory pension scheme for employees who are eligible in accordance with the rules of the Plan. On August 2, 2001, the Financial Services Commission assumed responsibility for the Plan. (See note 1).

The scheme is a defined contribution plan which is set up under trust and is administered by a life insurance company.

Contributions by the Commission for the year/period amounted to \$1,151,958 (2002: \$545,878).

The scheme is subject to periodic actuarial reviews at intervals of not more than three years.

### AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### **10. Insurance Licensee Deposit**

In accordance with Section 21 of the Insurance Act 2001 insurance companies, which operate in Jamaica, are required to deposit a prescribed amount with the Commission.

As stated in Regulation 8 (1) of the Insurance Regulations, 2001, the minimum asset required to be deposited with the Commission by a registered insurer from commencement of operations in or from within Jamaica shall be:

- (a) in respect of an entity which proposes to carry on life or sickness and health insurance business, or both, ninety million dollars (\$90,000,000);
- (b) in respect of an entity which proposes to carry on general insurance business, forty-five million dollars (\$45,000,000).

Regulation 9 (1) states that the value of securities deposited shall be estimated at their market value, not exceeding par, at the time they are deposited.

As at March 31, 2003, securities so deposited and which were in the possession of the Commission amounted to \$1,477 million (2002: \$Nil)

### 11. Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

For the purpose of the financial statements, financial assets have been determined to include cash, short-term investments, and accounts receivable. Financial liability consists of accounts payable only. Information relating to fair values and financial instruments risks is summarized below.

### (i) Credit risk:

Credit risk is the risk that one or both parties to the financial instruments will fail to discharge an obligation resulting in loss to one or both parties.

Cash and short-term investments are held with one reputable financial institution and investments are made in repurchase agreements involving Government of Jamaica securities.

### (ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Commission invests mainly in fixed interest rate bearing instruments and does not have any borrowings.

### AS AT MARCH 31, 2003 CONT'D (with comparatives for eight months)

### 11. Financial Instruments (cont'd)

### (iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Commission incurs foreign currency risk primarily on amounts held in United States dollars (US\$). At March 31, 2003, the foreign currency asset was US\$13,716 (2002: US\$2,184).

### (iv) Liquidity risk:

Liquidity risk also referred to as funding risk, is the risk that the Commission will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The Commission manages this risk by maintaining a substantial portion of its financial assets in liquid form and is not authorised to borrow.

### (v) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in prices, whether those changes are caused by factors specific to the individual security or its issuers or factors affecting all securities traded in the market. At the balance sheet date, the Commission did not have any financial instruments subject to this risk.

### (vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The company manages this risk by ensuring as far as possible, that fluctuations in cash flows relating to monetary financial assets are minimal by investing at fixed rates for fixed durations in the short term.

### (vii) Fair value disclosure:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of financial instruments have been determined, where practicable, using a generally accepted alternative method. However, considerable judgement is required in interpreting market data to develop estimates of fair value and even greater judgement where there is no public or over-the-counter market. Accordingly, the estimates presented below are not necessarily indicative of the amounts that the company would receive on realisation of its financial assets or would pay to settle its financial liabilities in a current market exchange.

The fair values of cash, short-term investments, accounts receivable, and accounts payable are assumed to approximate their carrying value due to their short-term nature.

# **NOTES**

